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Falling inflation figures could mean an even smaller Social Security COLA in 2025
By Rob Burgess
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Falling inflation figures could mean an even lower Social Security cost of living adjustment (COLA) for 2025, according to one analyst's forecast.

The 2025 increase could be 2.6%, down from the 3.2% bump in 2024, said Mary Johnson, retired Social Security and Medicare policy analyst previously with the Alexandria, Virginia-based Senior Citizens League.

That's based on the latest Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers data through July, released Wednesday.

Johnson's latest prediction for the 2025 figure is even lower than it was in July, when it was 2.7%. If that prediction holds, it will be the latest in a trend of falling COLAs in recent years.

"The prospective COLA for next year would be considered the average amount that COLAs have been over the past two decades and the lowest since 2021," said Johnson.

The 2024 COLA was less than half of what it was in 2023, when it was 8.7%.

Johnson said the CPI numbers in the next few months will be key to determining the rate for next year.

"The inflation numbers for July are especially important to pay attention to," said Johnson, "because the COLA is determined on the average rate of inflation in the third quarter — July, August and September — versus the average third-quarter inflation a year ago."

The 2025 COLA will be announced in October, so the figure will likely change over the next few months, said Johnson. The Consumer Price Index for August 2024 is scheduled to be released on Sept. 11.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% on a seasonally adjusted basis, after declining 0.1% in July. The U.S. Bureau of Labor Statistics index, which is used to calculate the COLA, is 2.9% higher than a year ago. That's the smallest 12-month increase since March 2021.

The all items less food and energy index rose 3.2% over the last 12 months and was the smallest 12-month increase in that index since April 2021. The energy index increased 1.1% for the 12 months ending July. The food index increased 2.2% over the last year.

The index for shelter rose 0.4% in July, accounting for nearly 90% of the monthly increase in the all-items index.

Indexes that increased in July included shelter, motor vehicle insurance, household furnishings and operations, education, recreation and personal care. The indexes for used cars and trucks, medical care, airline fares, and apparel were among those that decreased over the month.

"To see a two-handle on year-over-year CPI continues to show another nice reminder that inflation is cooling and the surge we saw in the first quarter is a thing of the past," said Ryan Detrick, chief market strategist at Carson Group, in a statement. "Peeling back the onion showed nice improvements in goods, including things like used cars and apparel."